

CERTIFICATION

May 20, 2013

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify
that the attached is a full and correct copy of the

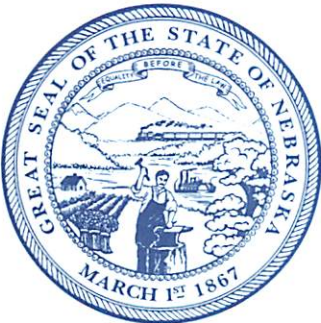
Financial Examination Report of
Empire Fire and Marine Insurance Company

as of

December 31, 2011

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



Bruce R. Ramage
DIRECTOR OF INSURANCE

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

EMPIRE FIRE AND MARINE INSURANCE COMPANY

as of

December 31, 2011

**STATE OF NEBRASKA
DEPARTMENT OF INSURANCE**

MAY 20 2013

FILED

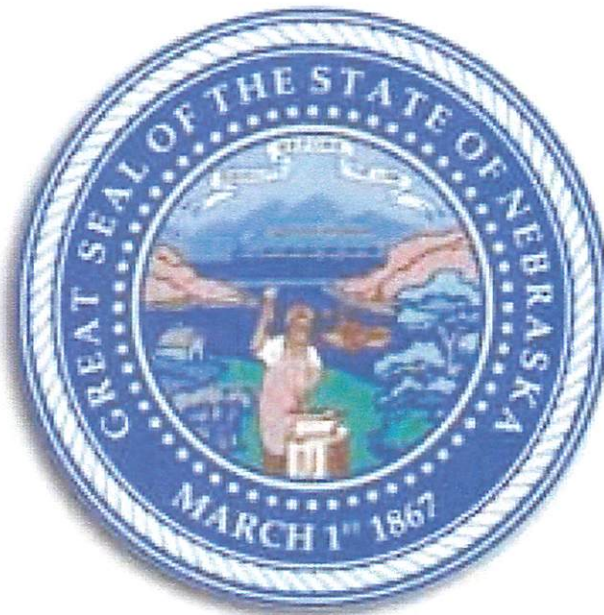


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Schaumburg, Illinois
March 18, 2013

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Chairman, Financial Condition (E) Committee, NAIC
Deputy Director and Superintendent of Insurance
Rhode Island Division of Insurance
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Cranston, Rhode Island 02920

Honorable Joseph G. Murphy
Chair, Northeast Zone, NAIC
Commissioner of Insurance
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Division of Insurance
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Honorable John M. Huff
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Director of Insurance
Missouri Department of Insurance
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Honorable Gordon I. Ito
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New York State Department of Financial Services
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New York, New York 10004

Honorable Bruce R. Ramge
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Madams and Sirs:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

EMPIRE FIRE AND MARINE INSURANCE COMPANY

which has its Statutory Home Office located at

**13810 FNB Parkway
Omaha, Nebraska 68154**

with its Principal Executive Office located at

**1400 American Lane, Tower 1, 18th Floor
Schaumburg, Illinois 60196**

(hereinafter also referred to as the "Company") and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2006 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2011, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska, New York, California, Delaware, Illinois, and Maryland participated in this examination and assisted in the preparation of this report.

The same examination staff conducted concurrent financial condition examinations of the Company's affiliates, American Guarantee and Liability Insurance Company (NY), American Zurich Insurance Company (IL), Assurance Company of America (NY), Colonial American Casualty and Surety Company (MD), Fidelity and Deposit Insurance Company of Maryland (MD), Maryland Casualty Company (MD), Northern Insurance Company of New York (NY), Steadfast Insurance Company (DE), Zurich American Insurance Company (NY), and Zurich American Insurance Company of Illinois (IL).

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and

significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the New York State Department of Financial Services as the coordinating state, and the California Department of Insurance, Delaware Department of Insurance, Illinois Department of Insurance, Maryland Insurance Administration, and Nebraska Department of Insurance. The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The

minutes of the meetings of the shareholder, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by PricewaterhouseCoopers, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2010 and 2011. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was

performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated under the laws of the State of Nebraska on March 16, 1954, and commenced business on July 31 of that year as a capital stock casualty insurance company.

By means of a reinsurance agreement effective August 1, 1954, the Company absorbed all of the assets and assumed all of the liabilities of the Empire Fire and Marine Automobile Insurance Company of Omaha, Nebraska, a mutual insurance company which had been organized in 1947.

Effective October 15, 1956, the Company assumed all of the assets and liabilities and obligations of Mutual Bonding and Indemnity Company of Omaha, Nebraska. Under the terms of a reinsurance and consolidation agreement, the Company, on February 15, 1957, received all of the assets and assumed all of the liabilities and obligations of the Farmers Union Fidelity Insurance Company, a mutual insurance company of Grand Island, Nebraska. On September 1, 1957, a former wholly owned affiliate, Empire Surety Company of Omaha, Nebraska, was similarly absorbed by means of a reinsurance and consolidation agreement.

The Company and Public Service Insurance Company of Fort Wayne, Indiana, merged effective January 1, 1960. A merger between the Company and Equity Insurance Company of

America, a domestic health and accident company of Omaha, was effective December 31, 1960.

In both instances, the surviving corporation was Empire Fire and Marine Insurance Company.

Effective May 31, 1979, Zurich Insurance Company, U.S. Branch, acquired all of the outstanding shares of capital stock of the Company. Subsequent changes in ownership of the Company's stock have occurred among affiliate companies. The latest such change took place on January 1, 1999 when American Guarantee & Liability Insurance Company contributed the Company's stock to Zurich American Insurance Company (ZAIC).

Effective September 7, 1998, the financial services business of B.A.T. Industries p.l.c., a United Kingdom corporation, merged with Zurich Insurance Company, a Swiss corporation, formerly the ultimate controlling parent of the Company. Separate holding companies were created for the business of B.A.T. and Zurich. These were Allied Zurich and Zurich Allied AG respectively. Allied Zurich and Zurich Allied AG then formed Zurich Financial Services (ZFS) and each contributed its business to the new holding company through an exchange of stock.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An abridged holding company organizational listing flowing from the 'Ultimate Controlling Person', as reported in the 2011 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100 percent owned):

Zurich Financial Services Ltd. (Zurich, Switzerland)
 Allied Zurich Limited (UK)
 Farmers Group, Inc. (NV) 12.1%
 Zurich Insurance Company Ltd (Zurich, Switzerland)
 Farmers Group, Inc. (NV) 87.9%
 Zurich Holding Company of America, Inc. (DE) 99.8711%
 Zurich Global Investment Management Inc.
 Zurich CZI Management Holding Ltd
 ZFUS Services, LLC
 ZNA Services, LLC
 Farmers Services, LLC
 Zurich American Corporation
 Maunaula Associates, Inc.
 KLMLP, LP 75%
 ZKS Real Estate Partners, LLC 41.67%
 Zurich American Life Insurance Company (NY)
 Zurich American Life Insurance Company of New York (NY)
 Zurich Global, Ltd. (Bermuda)
 Zurich American Insurance Company
 Zurich E&S Brokerage, Inc.
 Empire Indemnity Insurance Company (OK)
 Empire Fire and Marine Insurance Company (NE)
 American Guarantee and Liability Insurance Company (NY)
 Steadfast Insurance Company (DE)
 Steadfast Santa Clarita Holdings LLC
 American Zurich Insurance Company (IL)
 Zurich American Insurance Company of Illinois (IL)
 Zurich Warranty Solutions, Inc.
 Fidelity and Deposit Company of Maryland (MD)
 Colonial American Casualty and Surety Company (MD)
 Maryland Casualty Company (MD)
 Assurance Company of America (NY)
 Northern Insurance Company of New York (NY)
 Zurich Agency Services, Inc. (TX)
 Universal Underwriters Insurance Company (KS)
 Universal Underwriters of Texas Insurance Company (TX)
 Universal Underwriters Life Insurance Company
 Sterling Forest LLC (DE)
 South County Services Co. Inc.
 ZI Park 80 West LLC
 L&L Park 80 Investors LLC

In addition to the entities indicated above, the Zurich U.S. organization includes affiliations with the Farmers Insurance Exchange, the Fire Insurance Exchange and the Truck

Insurance Exchange, which in turn own entities grouped as Farmers, Foremost, Bristol West and 21st Century organizations. It was noted that effective April 12, 2012, Zurich Financial Services, Ltd. changed its name to Zurich Insurance Group Ltd.

Shareholder

Article V of the Company's Amended Articles of Incorporation states that, "the aggregate number of shares which the Corporation has authority to issue is Two Million (2,000,000) shares of Common Stock of the par value of Two Dollars (\$2.00) per share." At the current date, Company records indicate that 2,000,000 shares are issued and outstanding for a paid up capital of \$4,000,000, and that all are owned by Zurich American Insurance Company (ZAIC), a wholly-owned subsidiary of Zurich Holding Company of America. The Gross Paid In and Contributed Surplus of \$33,713,721 remained unchanged during the current five-year examination period.

The Company declared and paid an extraordinary cash dividend of \$75 million to its parent, ZAIC in 2007, approved by the Nebraska Department of Insurance. In addition the following ordinary cash dividends were paid:

<u>Year</u>	<u>Amount</u>
2011	\$ 5,300,000
2010	5,500,000
2009	5,500,000
2008	5,000,000
2007	18,000,000

Article I, Section I of the Amended and Restated By-Laws state that, "the Annual Meeting of shareholders shall be held in March on a date and at a time determined by the Chairman of the Board of Directors, but in no event later than the 1st day of May." The purpose

of this meeting is the election of Directors and for the transaction of such other business as may come before the meeting.

Board of Directors

The Amended and Restated By-Laws provide that the business and affairs of the corporation shall be managed by its Board of Directors. Article III, Section 2.1 states that, “the number of Directors shall be not less than thirteen (13) nor more than twenty (21) elected at the annual meeting of the shareholders.”

The following persons were serving as Directors at December 31, 2011:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Earl R. Clouser Princeton, New Jersey	Executive Vice President Zurich American Insurance Company
Michael T. Foley Barrington Hills, Illinois	Chairman, Chief Executive Officer Zurich American Insurance Company
Craig J. Fundum Omaha, Nebraska	Executive Vice President Zurich American Insurance Company
Steven M. Hatch North Barrington, Illinois	Executive Vice President Zurich American Insurance Company
Richard P. Kearns East Williston, New York	Executive Vice President Zurich American Insurance Company
Michael G. Kerner Wyckoff, New Jersey	Executive Vice President Zurich American Insurance Company
Dennis F. Kerrigan Jr. North Barrington, Illinois	Executive Vice President, Corporate Secretary Zurich American Insurance Company
Mary R. Merkel Mount Prospect, Illinois	Executive Vice President Zurich American Insurance Company
Nancy D. Mueller Kildeer, Illinois	President Zurich American Insurance Company
Daniel W. Riordan McLean, Virginia	Executive Vice President Zurich American Insurance Company

Name and Residence**Principal Occupation**

Vibhu R. Sharma
Wayzata, Minnesota

Executive Vice President, Chief Financial Officer
Zurich American Insurance Company

Angus M. Talbot
Horgen, ZH Switzerland

Director
Zurich American Insurance Company

Vincent C. Tizzio
Summit, New Jersey

Executive Vice President
Zurich American Insurance Company

Effective June 28, 2012, Vincent Tizzio resigned from the Board. On July 27, 2012, the Board approved Tina Mallie as his replacement.

Effective September 1, 2012, Michael Kerner and Vibhu Sharma resigned from the Board. Effective September 21, 2012 the Board appointed Dalynn Hoch as a Director.

Effective November 5, 2012, Tina Mallie resigned from the Board. Effective December 11, 2012, the Board appointed Kathleen Savio and Bryan Salvatore as Directors to fill the vacant Director positions.

Officers

The Amended and Restated By-Laws, Article V, Section 2 state that, “the Executive Officers of the Corporation shall include the Chief Executive Officer (CEO), the President, who shall both be Directors, one or more Executive Vice Presidents, a Corporate Secretary and a Treasurer. All Executive Officers shall be elected annually by the newly elected Board at its initial meeting.”

The following is a partial listing of Senior Officers elected and serving the Company at December 31, 2011:

Name**Office**

Michael T. Foley
Nancy D. Mueller
Vibhu R. Sharma

Chief Executive Officer
President
Executive Vice President, Chief Financial Officer

<u>Name</u>	<u>Office</u>
Bob D. Effinger, Jr.	Executive Vice President, Chief Actuary
Dennis F. Kerrigan, Jr.	Executive Vice President, Corporate Secretary
Earl R. Clouser	Executive Vice President
Martin Feuer	Executive Vice President
Craig J. Fundum	Executive Vice President, President Programs and Direct Markets
Steven M. Hatch	Executive Vice President
Tina G. Mallie	Executive Vice President
Mary R. Merkel	Executive Vice President
John C. Parker	Executive Vice President, Chief Marketing Officer
Daniel W. Riordan	Executive Vice President
Vincent C. Tizzio	Executive Vice President, President of Commercial Markets and Customer Industry
Barry S. Paul	Treasurer

Effective May 15, 2012, Barry Paul resigned as Treasurer. The Board appointed Robert Burne as Treasurer effective July 27, 2012.

Effective May 31, 2012 John Parker resigned as Executive Vice President and Chief Marketing Officer. The Chief Marketing Officer position was dissolved and the responsibilities under the position were delegated to others.

Effective September 1, 2012, Vincent Tizzio resigned as Executive Vice President and President of Commercial Markets and Customer Industry Segments. He was replaced by Craig Fundum, President Programs and Direct Markets. Effective July 11, 2012, Tina Mallie was appointed by the Board as the President of Programs and Direct Markets.

Effective September 1, 2012, Vibhu Sharma resigned as Chief Financial Officer and Executive Vice President. Effective September 21, 2012, the Board appointed Dalynn Hoch as Chief Financial Officer and Executive Vice President.

Effective November 5, 2012, Tina Mallie resigned as Executive Vice President and President of Programs and Direct Markets and was replaced by Kathleen Savio, Chief

Administrative Officer. The Chief Administrative Officer was dissolved and the responsibilities under the position were delegated to others.

Committees

The Company's By-Laws provide that the Board of Directors by a majority vote of the whole Board may elect from its own number an Executive Committee, to serve at the pleasure of the Board, consisting of not less than one-third of the members of the Board of Directors. The Executive Committee shall elect from among its members a Chairman.

The following persons were serving on the Executive Committee at December 31, 2011:

Michael T. Foley (Chairman)	Earl R. Clouser
Dennis F. Kerrigan, Jr.	Nancy D. Mueller
Vibhu R. Sharma	

The Board of Directors designated the Zurich Holding Company of America, Inc. Audit Committee as the Audit Committee for the Company. The members of the Audit Committee as of December 31, 2011 are:

Wayne Fisher (Chairman)	Richard Kearns
Donald Nicolaisen	Susan Bies

TRANSACTIONS WITH AFFILIATES

The Company is a direct party to several inter-company agreements, as described under the separate sub-captions below.

Intercompany Service Agreement ("Pooled Companies")

Effective January 1, 2008, and as amended January 1, 2010 and March 31, 2011, the Company and all other entities that are members of the Zurich North America (ZNA) Pool entered into an agreement with Zurich American Insurance Company (ZAIC) whereby ZAIC is to provide a variety of administrative and back-office support type services to the participating entities at cost. Services include accounting, human resources related, group management,

compliance and risk management, procurement services, tax, IT, financial (including budgeting, cash management, investment management and analysis and advice, etc.), and overall business management services. Costs are to be allocated out to each entity based upon actual or agreed upon methodology, with monthly reporting and settlement to follow within a stated maximum number of days. This agreement superseded the Amended and Restated Information Technology Service Agreement previously in effect since 2003.

In conjunction with this agreement, it was noted that ZAIC has entered into a number of service-related agreements with other affiliated entities with the intention of ZAIC fulfilling certain of its duties through the utilization of these additional agreements.

Intercompany Pooling Agreement

Effective January 1, 2009 and as amended April 1, 2010, the Company along with twelve other affiliates entered into a pooling agreement with ZAIC under which each of the members cedes to ZAIC 100% of their net in-force and future policy liabilities, including policyholder dividends, unearned premiums, reported and incurred but not reported claims, losses and underwriting expenses. ZAIC is then responsible for 100% of these items while each of the other participants within this pool retain 0% responsibility. Reporting and settlement are to occur on a quarterly basis. This agreement supersedes the Amended and Restated Intercompany Pooling Agreement originally entered into on January 1, 1999.

Intercompany Tax Sharing Agreement

The Company is a participant in a tax sharing agreement with all of the direct and indirect subsidiaries of Zurich Holding Company of America, Inc. (ZHCA). Originally effective in December 1981 and subsequently amended and restated in its entirety with an effective date of January 1, 2006, the Company's federal income tax return is consolidated with other affiliated

entities within the ZHCA holding company group. The agreement sets out the method of allocating tax between the companies, which in general provides that the allocation is to be based upon separate return calculation with no immediate benefit for a taxable loss (which is utilized in the current year consolidated return). Intercompany tax balances are to be settled within thirty days following applicable transactions.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states except Oklahoma. The Company is limited to writing excess and surplus lines insurance on a non-admitted basis in Oklahoma and Puerto Rico.

The Company operates primarily in the Programs and Direct Markets business unit within Zurich's North American property and casualty insurance operations. The Programs and Direct Markets business unit is made up of seven strategic business units (SBUs): Alternative Programs, Captives and Alternative Risk Transfer Solutions, Construction Services Programs, Direct Markets, Segmented Programs, Transportation, and New Programs.

- Alternative Programs – The Alternative Programs strategic business unit focuses on Excess and Surplus Lines programs, as well as programs which incorporate a non-traditional type of insurance product or distribution model.
- Captives and Alternative Risk Transfer Solutions – The Alternative and Risk Transfer Solutions strategic business unit has been fine-tuning its skills in the growing captives market for more than 20 years. This SBU delivers a wide range of services to member-owned, agency, association and segregated portfolio captives. This SBU targets a broad spectrum of industry segments, including construction manufacturing, transportation, service industries, distributors, and temporary staffing.

- **Construction Services Programs** – The Construction Services Programs strategic business unit specializes in insurance for small and mid-sized commercial and professional markets in the construction industry, complimentary industries to construction, and other inland marine classes. Construction Services offers a variety of coverages through program administrators including builder's risk and contractor's equipment, along with general liability and excess liability for roofer, sprinkler and energy contractors.
- **Direct Markets** – The Direct Markets strategic business unit specializes in providing insurance for businesses that sell or service autos, trucks, motorcycles, RVs and equipment and to auto recyclers. The Direct Markets SBU has a dedicated sales force of licensed agents and Finance and Insurance (F&I) business professionals who meet regularly and directly with their customers. Direct Markets provides the Unicover VI policy, which is a copy written package garage policy, to all of their target market risks. The Direct Markets SBU also offers other brokered products through its in-house agency. F&I products are sold to retail customers of auto and motorcycle dealers.
- **Segmented Programs** – The Segmented Programs strategic business unit has three distinct profit centers:
 - **Professional Liability** - provides professional liability coverage for targeted professionals including lawyers, travel agents, and veterinarians.
 - **Workers' Compensation** - provides workers' compensation coverage for specialty compensation and main street programs.
 - **Industry Focused** - provides package solutions including professional liability, property, general liability, workers' compensation, and other lines to specific niche classes such as film production, tanning, and schools.

- Transportation - The Transportation strategic business unit serves the specialty auto, trucking/long haul, commercial auto, and leasing and rental operator markets. Within the rental insurance industry, this SBU has more than 15 years of experience.
- New Programs – The New Programs strategic business unit is a multi-disciplinary team responsible for conducting due diligence, implementation, and transition of new programs for the Programs and Direct Markets business unit.

REINSURANCE

Assumed

All policies in-force, written, or renewed on or after January 1, 1973 by Empire Indemnity Insurance Company, an affiliate, are assumed by the Company under a 100% quota share agreement. The agreement refers to the 100% assumption of the net retained liability of Empire Indemnity Insurance Company. A ceding commission is allowed the reinsured equal to that paid to agents and brokers producing the business, but not to exceed 25%. The Company also assumes the liability for taxes, assessments and other expenses in addition to the commissions.

Multi-peril crop insurance is written by the Company and Fireman's Fund through Rural Community Insurance Services, Inc. (RCIS), as General Agent for the Company, and ceded 100% to The Federal Crop Insurance Corporation (FCIC), through a pool established by Rural Community Insurance Company RCIC. RCIC retains 20% and cedes 80% quota share, split with the Company assuming 30% and Fireman's Fund assuming the remaining 50%.

Crop hail and named peril insurance is written by Fireman's Fund and the Company through RCIS, through a pool established by RCIC. RCIC retains 20% and cedes 80% quota share, split with the Company assuming 30% and Fireman's Fund assuming the remaining 50%.

Livestock insurance is written by Fireman's Fund and the Company through RCIS, through a pool established by RCIC. RCIC retains 20% and cedes 80% quota share, split with the Company assuming 30% and Fireman's Fund assuming the remaining 50%.

Lender placed homeowners insurance business, produced and underwritten by QBE First (formerly Sterling National, formerly ZC Sterling) on QBE Insurance Corp paper, is assumed by the Company through a 20% quota share agreement. This agreement has both assumed and ceded components, with the ceded component being explained later. The homeowners book of business produced and underwritten by QBE First contains both Lender placed homeowners, written on QBE Insurance Corp's paper and assumed by the Company at 20% and Voluntary homeowners business, written on Zurich's paper (the Company) and ceded to QBE Insurance Corp at 80%.

The Company entered into an agreement on April 1, 2006 to assume 100% of Homeowners and Miscellaneous Coverages written in Texas by National Specialty Insurance Company through QBE First (formerly Sterling National, formerly ZC Sterling).

The Company, as a licensed carrier, is required to participate in various state Fair Plans (property) and Commercial Auto Insurance Pools (auto) based on the ratio of the Company's written premiums to that of statewide premiums. In accordance with various plans of operation, the Company participates in these pools in most states as a reinsurer.

Ceded

The underwriting operations of Zurich American Insurance Company (ZAIC) and its major affiliates participate in an Intercompany Pooling Agreement organized on January 1, 1999, with the Company's subsequent participation by amendment, effective January 1, 2000. The agreement provides for the 100% allocation and distribution to ZAIC of all net in-force and

future policy liability as well as the reported and incurred but not reported loss, claim and underwriting expense of each participant. It is agreed that ZAIC will assume all liabilities as they existed at the inception of the agreement and commencing thereafter will assume: (1) the unearned premium reserve less direct commissions on all lines of business; (2) all premiums written less the cost of reinsurance; (3) the net liability for unpaid losses and LAE; (4) paid losses less reinsurance recovered; (5) unpaid underwriting expenses; (6) any liability for unauthorized reinsurance and non-admitted assets disallowed for annual statement or other financial statement purposes. Settlements are rendered quarterly. Nebraska Department of Insurance approval was obtained prior to the Company's participation in this pool.

Multiple peril crop is written direct by the Company through RCIS, its general agent and ceded 100% quota share to RCIC.

Crop hail and named peril is written direct by the Company through RCIS, its general agent and ceded 100% to RCIC.

Livestock is written direct by the Company through RCIS, its general agent and ceded 100% to RCIC.

Voluntary homeowners insurance business, produced and underwritten by QBE First (formerly Sterling National, formerly ZC Sterling) on Zurich's paper (the Company), is ceded to QBE Insurance Corp through a 80% quota share agreement. This agreement has both assumed and ceded components, with the assumed component being explained earlier. The homeowners book of business produced and underwritten by QBE First contains both Lender placed homeowners, written on QBE Insurance Corp's paper and assumed by the Company at 20% and Voluntary homeowners business, written on Zurich's paper (the Company) and ceded to QBE Insurance Corp at 80%.

The Company has two reinsurance contracts involving auto rental and auto dealer business. These agreements are between the Company and Global Vision Re, a wholly owned subsidiary of Enterprise Rent-A-Car Company. The first agreement is a 100% quota share agreement effective from August 1, 2011 to August 1, 2012 covering certain Personal Accident Insurance and Personal Property Coverage Insurance. The second is a 100% quota share agreement, effective August 1, 2011, covering certain Supplemental Liability Insurance, with a \$1,000,000 per accident limit, and Rental Liability Insurance purchased in Texas and Nebraska.

The Company is a party to the following Corporate Covers purchased on behalf of ZAIC and its pooled companies:

A five-layer group property catastrophe reinsurance agreement provides coverage in excess of \$500M up to \$1.4B. The first three layers of this reinsurance agreement provide coverage for all perils excluding California Earthquake, while layers four and five provide coverage for Hurricane only. Based on Zurich's financial strength and risk appetite, this property catastrophe reinsurance agreement has meaningful co-participations throughout the program. This main catastrophe treaty covers all Zurich entities for losses that occur in the U.S., regardless of the location of the Zurich entity writing the underlying risk.

A multi-year (December 24, 2009 through December 31, 2011) California Earthquake Catastrophe Bond property layer of 90% of \$250M in excess of \$500M was placed with Lakeside Re II (a Special Purpose Reinsurance Vehicle). The treaty between ZAIC and Lakeside Re II allows for annual reset of the treaty attachment point. This treaty also relies on the ZAIC's exposures as modeled by their Risk Management Software (RMS) CAT modeling application.

A two layer Property Claim Services (PCS) Property Catastrophe Aggregate cover was in effect from January 1, 2011 through December 31, 2011, with 100% of the first layer (\$100M in excess of \$400M) and 97.5% of the second layer (\$400M in excess of \$500M) placed with Zurich Insurance Company. The remaining 2.5% of the second layer is reinsured by Munchener Ruckversicherung. This treaty has a two-risk warranty, as well as the requirement that the PCS event be greater than \$10M. The maximum contribution from any one event is \$400M. This is a frequency cover, not a severity cover, and does not address any losses in excess of the Group Cat Cover limit.

Terrorism coverage was purchased on a per occurrence basis with a limit of \$300M in excess of \$300M on an aggregate basis. Included in this limit is \$200M of coverage for acts of terrorism involving nuclear, biological, chemical, and radiological. This treaty was placed at 65%.

Workers' Compensation is covered by a three layer WC Indexed Catastrophe XOL treaty providing coverage of \$300M in excess of \$200M, all with one reinstatement. This treaty was placed at 50%.

A Corporate General Property Per Risk Program containing two layers provides up to \$100M of coverage per risk/per occurrence on losses in excess of \$50M. The first layer of this treaty provides coverage up to \$25M in excess of \$50M per loss/per occurrence, with three prepaid reinstatements for an annual aggregate limit of \$100M, as well as an occurrence limit of \$50M. This layer is placed at 100%.

The second layer provides coverage up to \$75M in excess of \$75M per risk/per occurrence. This layer has a \$75M per occurrence limit, with a \$150M annual aggregate limit. This layer is placed at 100%.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

The Company and several of its affiliates are listed in common as cedants in various reinsurance agreements. These reinsurance arrangements are commonly known as multi-cedant reinsurance contracts and should be in compliance with Statements of Statutory Accounting Principles No. 62, paragraph 9. The contracts, or allocation agreements, entered into by the Company and its affiliates do not appear to have been filed with the Nebraska Department of Insurance. It is recommended that the Company file the agreements with the Director of the Nebraska Department of Insurance under the provisions of the Insurance Holding Company System Act, *Nebraska Revised Statute* § 44-2133(2)(c).

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Bonds	\$ 75,031,959	\$ 72,760,634	\$ 45,868,916	\$50,195,384	\$ 46,698,786
Amounts recoverable					
from reinsurers	61,829,496	90,767,735	50,945,045	44,045,327	54,612,144
Admitted assets	196,843,506	202,722,645	176,008,521	87,575,798	135,476,724
Ceded reinsurance					
premiums payable	108,708,253	101,310,228	70,071,590	33,623,124	80,627,987
Total liabilities	142,195,111	147,621,761	120,511,898	34,410,943	85,501,462
Capital and surplus	54,648,395	55,100,884	55,496,623	53,164,854	49,975,262
Net investment income	12,480,365	2,654,184	3,819,262	3,134,529	2,119,033
Net income	12,481,328	2,749,134	3,861,101	3,138,699	2,146,204

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2011 and its transactions during the year 2012 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2011

Assets

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 46,698,786		\$ 46,698,786
Cash and short-term investments	<u>6,483,251</u>		<u>6,483,251</u>
Subtotal, cash and invested assets	\$ 53,182,037		\$ 53,182,037
Investment income due and accrued	446,255	\$112,933	333,321
Uncollected premium and agents' balances	26,558,563		26,558,563
Amounts recoverable from reinsurers	54,612,144		54,612,144
Net deferred tax asset	39,270	10,971	28,299
Receivables from parent, subsidiaries and affiliates	<u>762,361</u>	<u> </u>	<u>762,361</u>
Totals	<u>\$135,600,629</u>	<u>\$123,904</u>	<u>\$135,476,724</u>

Liabilities, Surplus, and Other Funds

Reinsurance payable on paid losses	\$ 2,160,972
Other expenses	4,581
Current federal and foreign income taxes	13,217
Ceded reinsurance premiums payable	80,627,987
Payable to parent, subsidiaries and affiliates	<u>2,694,706</u>
Total liabilities	<u>\$ 85,501,462</u>
Common capital stock	\$ 4,000,000
Gross paid in and contributed surplus	33,713,721
Unassigned funds (surplus)	<u>12,261,541</u>
Total capital and surplus	<u>\$ 49,975,262</u>
Totals	<u>\$135,476,724</u>

STATEMENT OF INCOME – 2011

Underwriting Income

Premiums earned	\$ 0
Losses incurred	\$ 0
Loss adjustment expenses incurred	<u>0</u>
Total underwriting deductions	<u>\$ 0</u>
Net underwriting gain	<u>\$ 0</u>

Investment Income

Net investment income earned	\$1,786,450
Net realized capital gain	<u>332,583</u>
Net investment gain	<u>\$2,119,033</u>
Net income before federal income taxes	\$2,119,033
Federal income taxes incurred	<u>(27,171)</u>
Net income	<u>\$2,146,204</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Capital and surplus, beginning	<u>\$131,040,331</u>	<u>\$54,648,395</u>	<u>\$55,100,884</u>	<u>\$55,496,623</u>	<u>\$53,164,854</u>
Net income	\$ 12,481,328	\$ 2,749,134	\$ 3,861,101	\$ 3,138,699	\$ 2,146,204
Change in net unrealized capital gains	8,955,593		(46,482)	18,085	28,398
Change in net deferred income tax	(54,384)	815,198	34,360	(629,658)	(139,392)
Change in nonadmitted assets	(4,774,473)	1,888,157	2,046,761	641,106	75,198
Dividends to stockholders	<u>(93,000,000)</u>	<u>(5,000,000)</u>	<u>(5,500,000)</u>	<u>(5,500,000)</u>	<u>(5,300,000)</u>
Net change for the year	<u>\$ (76,391,936)</u>	<u>\$ 452,489</u>	<u>\$ 395,739</u>	<u>\$ (2,331,769)</u>	<u>\$ (3,189,593)</u>
Capital and surplus, ending	<u>\$ 54,648,395</u>	<u>\$55,100,884</u>	<u>\$55,496,623</u>	<u>\$53,164,854</u>	<u>\$49,975,262</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$12,261,541, as reported in the Company's 2011 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

Reinsurance - It is recommended that the Company establish an allocation agreement to formalize provisions for sharing amongst affiliates participating in multi-cedant reinsurance contracts. It is also recommended that this agreement be filed with the Director of the Nebraska Department of Insurance under the provisions of the Insurance Holding Company System Act, Nebraska State Statute 44-2133(2).

Action: The Company has not complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There were no additional findings warranting comment as a result of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following recommendations have been made as a result of this examination:

- 1) **Reinsurance** - It is recommended that the Company file the agreements with the Director of the Nebraska Department of Insurance under the provisions of the Insurance Holding Company System Act, *Nebraska Revised Statute* § 44-2133(2)(c).

ACKNOWLEDGEMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Financial Examiners, Information Systems Specialists, and Actuarial Examiners with or contracted by the New York State Department of Insurance, California Department of Insurance, Delaware Department of Insurance, Illinois Department of Insurance, and the Maryland Insurance Administration; participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Linda K. Scholl, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Linda Scholl, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Empire Fire and Marine Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Empire Fire and Marine Insurance Company. The exam was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

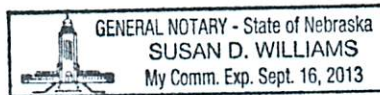
The affiant says nothing further.

Linda K. Scholl
Examiner-in-Charge's Signature

Subscribed and sworn before me by *Linda K. Scholl* on this 8th day of May, 2013.

(SEAL)

Susan D. Williams
Notary Public



My commission expires 9/16/13 [date].